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## **Industrial Development Board**

### **Forty-ninth session**

Vienna, 12-15 July 2021

Item 14 of the provisional agenda

### **UNIDO Independent Oversight**

### **Advisory Committee**

## **Report of the Oversight Advisory Committee**

### **Report by the Chair**

This document is issued pursuant to decisions IDB.44/Dec.4 and IDB.48/Dec.5, which adopted the revised terms of reference for the Independent Oversight Advisory Committee (OAC). The present report provides information on the OAC's activities and advice.

## **I. Introduction**

1. Since the Oversight Advisory Committee (OAC) last reported to the Board (IDB.48/20), the revised terms of reference (TOR), including the expansion of mandate and change of name were adopted in November 2020 at the forty-eighth session of the Board (decision IDB.48/Dec.5).
2. The OAC held its sixth formal meeting virtually in February 2021.
3. The OAC, under its revised terms of reference, reviews and advises on: financial regulations and rules, accounting policies, as well as financial reports; governance, internal controls, compliance and risk management; internal audit; evaluation; investigation; external audit; and the actions taken by management and legislative bodies (i.e. UNIDO's policymaking organs and subsidiary bodies) to address JIU recommendations.
4. For 2021, the OAC has committed to focussing specifically on the following three priority areas: Results-based management for impact; investigation and independence; and accountability for implementing management action plans.
5. This document does not comprise a detailed compendium of OAC activities and advice; it rather seeks to highlight (a) the key achievements in oversight made by UNIDO with OAC's advice since last year, and (b) key areas of residual risk in oversight, which the OAC believes the Board should be aware of and consider in its deliberations.

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## II. Progress in governance, risk management and internal control at UNIDO

### Evaluation and Internal Oversight

6. The UNIDO Office of Evaluation and Internal Oversight (EIO) functions are showing further maturity. In addition to the revised Charter of the Office approved by the Board (decision IDB.48/Dec.10), EIO is developing robust revised internal audit and evaluation policies, and a new investigation policy, which will be promulgated in a Director General's bulletin.

7. The EIO audit and evaluation functions have continued to collaborate actively; a first joint engagement has been initiated this year.

### Response to COVID-19

8. UNIDO has shown great strategic flexibility in light of the pandemic. EIO appropriately revised its workplans, and pivoted to engagements focused on advising and strengthening the Organization, achieving a great deal notwithstanding the difficult year.

### Executive management body

9. The newly established UNIDO Operations Coordination Committee (OCC), a subgroup of the Executive Board, is now overseeing strategic issues related to technical cooperation at the level of the Executive Board. This sets an important "tone from the top," which prepares the stage for greater coordination on risk and assurance in the service of impact.

### Results-based management, budgeting and programme delivery

10. UNIDO is making significant progress in transforming the Organization to be results-based, in alignment with the medium-term programme framework (MTPF) and the integrated results performance framework (IRPF). The adoption of the result-based budget for the next biennial cycle is a critical milestone for this transformation. The OAC will further pay attention to the development of these topics and advise the Board on the basis of reviews and assessments conducted by EIO, the External Auditor and other assurance providers.

### Coordinating management action plans

11. The OAC strongly supports UNIDO's attention to the implementation of management action plans (MAPs) that arise from audits. The OAC is following up on the progress in implementing MAPs and recommendations, both from internal audit and from the Joint Inspection Unit (JIU) and the External Auditor.

12. The OAC will be observing carefully how recommendations from internal audit, the JIU, external audit, and evaluation engagements can be further consolidated and addressed, including a risk escalation procedure.

### Enterprise risk management (ERM)

13. Enterprise risk management, which has made strong progress since the OAC's last meeting, is now focused explicitly on critical strategic risks in its 2021 priorities.

14. Management has integrated the monitoring of risk and results, and appointed Results and Risk Focal Points at the business unit level. This clarifies the importance of risk management as a means to achieving expected results.

15. UNIDO has clearly articulated the link between risk management and accountability in recently issued policies (e.g., the Accountability and Internal Control Frameworks).

**External audit**

16. The OAC has actively engaged with the External Auditor, the Accounts Chamber of the Russian Federation.

17. The OAC provided detailed comments on UNIDO's Financial Statements and on the Report of the External Auditor on the accounts of UNIDO for the financial year 1 January to 31 December 2020 (PBC.37/3) in conference room paper PBC.37/CRP3.

**III. Areas for further improvement****Results-based budgeting and management**

18. Notwithstanding the advances made in 2020, there is still significant work to be done to formalize management practices that are new and untested. For example, the connections between OCC, ERM, and accountability need to be operationalized and made explicit in the interest of embedding risk and results thinking at UNIDO.

19. Similarly, strengthening quality requirements and quality assurance mechanisms, the training of the departmental Results and Risk Focal Points, and systematic organizational monitoring, will require continued attention. The need for robust, continuous monitoring of results-based management was highlighted also by the Multilateral Organization Performance Assessment Network (MOPAN), evaluations and internal audit engagements.

**Recommendations and Management Action Plans**

20. The OAC is concerned that the implementation of recommendations from the JIU and the External Auditor are considerably delayed. This is particularly true for the JIU recommendations addressed to legislative bodies. The OAC recommends that the Board establish a process to discuss JIU recommendations made to the legislative body and track the implementation of agreed actions.

21. The OAC understands that resource constraints can hinder implementation of recommendations or management action plans. The OAC thus recommends that, any actions that are delayed beyond a reasonable time should be escalated appropriately. The OAC is aware that the Senior-level Focal Point for the implementation of recommendations, in cooperation with EIO and the ERM function, is working on an escalation process to address this.

**Enterprise risk management**

22. While enterprise risk management has developed considerably, UNIDO management will need to develop clear, repeatable processes for determining risk tolerance and risk appetite.

**Resources for internal oversight and evaluation**

23. The OAC continues to be concerned that not all high-risk areas identified can be covered in the EIO's internal oversight workplan due to resource constraints. Examples of top risk areas currently not covered in the 2021 audit workplan include innovation, and strategic business models and partnerships. As audit workplans are risk-based, this situation will be regularly re-evaluated through comprehensive risk assessments.

24. The concern regarding resource constraints is true also for the EIO evaluation function's approach to project evaluation. This faces financial constraints for undertaking ex-post and impact evaluations that would allow the Organization to better assess outcome-level results and how it is contributing towards the achievement of the Sustainable Development Goals. This issue was previously raised by the External Auditor in 2019.

25. The OAC has taken note of the increasing investigations caseload and will be following up to see if the trend holds steady and has implications for resourcing.

#### **IV. Results of the OAC performance survey**

26. In March 2021, the OAC conducted a survey to gather Board members' and UNIDO Secretariat's feedback on its effectiveness and compliance with its terms of reference. The feedback was positive and included helpful written comments.

27. Further details of the survey are provided in the OAC report of its sixth meeting. The OAC will pay particular attention to feedback received on reporting to the Board and the perceived exercise of governance responsibilities by the Director General and the Board.

#### **V. Actions recommended to the Board**

28. The Board may wish to take note of the information contained in the present document and provide guidance on the following:

(a) The OAC advises the Board to develop a process for addressing JIU recommendations directed to the legislative body (i.e., UNIDO's policymaking organs and subsidiary bodies). This would include overseeing the implementation of agreed actions, tracking them, and reporting on their completion; and

(b) The OAC advises the Board that the EIO budget be at an explicit programme level in future UNIDO programme and budgets and to strengthen transparent and independent authority over the financial and human resources allocated to oversight functions, as stipulated in the EIO's Charter (Board decision IDB.48/Dec.10).

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